

P-403/CP-89-930 ORDER REQUIRING REFILED COST STUDIES AND PROPOSED  
RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson  
Cynthia A. Kitlinski  
Dee Knaak  
Norma McKanna  
Patrice M. Vick

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition of  
Certain Subscribers in the  
Winnebago Exchange for Extended  
Area Service to the Blue Earth  
Exchange

ISSUE DATE: August 9, 1991

DOCKET NO. P-403/CP-89-930

ORDER REQUIRING REFILED COST  
STUDIES AND PROPOSED RATES

**PROCEDURAL HISTORY**

On October 19, 1989, customers from the Winnebago exchange filed a petition for extended area service (EAS) to the Blue Earth exchange. Both exchanges are served by the Blue Earth Valley Telephone Company (the Company).

On January 5, 1990, Olsen, Thielen & Co., Ltd., the accounting firm for the Company, filed a traffic study and on January 12, 1990, cost studies and community of interest information were filed.

On April 27, 1990, the 1990 Legislature passed and the Governor signed into law new legislation regarding EAS, 1990 Minn. Laws Chapter 513. The portion of that statute governing EAS for non-metropolitan exchanges such as Winnebago and Blue Earth has been codified as Minn. Stat. § 237.161 (1990).

On July 5, 1990, the Commission required the Company to file cost studies and proposed rates. In the Matter of the Petition of Certain Subscribers in the Winnebago Exchange for Extended Area Service to the Blue Earth Exchange, Docket No. P-403/CP-89-930, ORDER REQUIRING TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES (July 5, 1990).

On August 20, 1990 and again on September 10, 1990, Olsen, Thielen & Co., Ltd., the accounting firm that represents the Company, filed cost studies and proposed rates. The September 10 filing provided additional cost study details.

On October 26, 1990, the Minnesota Department of Public Service (the Department) submitted its report and recommendation.

On November 15, 1990, the Company filed response comments.

On July 30, 1991, the Commission met to consider this matter.

### **FINDINGS AND CONCLUSIONS**

The Company's cost studies raise concerns in four areas: cost recovery, income neutrality, cost apportionment, and the rates based on these cost studies.

#### **Cost Recovery**

The Company's cost studies did not indicate what stimulation factor it used in projecting its costs and revenues under EAS nor did they include the cost calculations used to translate the stimulation factor into new plant investment. The Commission will require the Company to file a revised cost study correcting these deficiencies. Supplying this missing information will provide a better basis for evaluating the validity of the Company's projected costs and revenues and, hence, the validity of the rates based thereon. In addition, the Company's studies should have included an estimate of the non-recurring EAS polling costs, costs properly recovered in pursuant to Minn. Stat. § 237.161, subd. 3 (1990).

#### **Income Neutrality**

The Company's cost studies did not indicate what income from USWC that would be gained or lost under EAS. Under the present network configuration, the Company carries the toll between Winnebago and Blue Earth for USWC. Through accounting transactions, the Company transfers its toll revenue to USWC and USWC in turn pays the Company for the access. In order to set EAS rates that are income neutral for both the Company and USWC, as required by Minn. Stat. § 237.161, subd. 3 (b) (1990), the Commission must have this information. Accordingly, the Commission will require USWC to file and the Company to include this information in its revised cost study.

#### **Cost Apportionment**

Minn. Stat. § 237.161, subd. 3 (1990) states

When the proposed [EAS] is not the metropolitan calling area, the commission shall determine the apportionment of costs, provided that between 50 and 75 percent of the costs must be allocated to the petitioning exchange.

The Company favors a rate setting methodology that does not aim to have Winnebago absorb a certain percentage of EAS costs, but instead establishes EAS rate additives that would maintain Winnebago's residential rates equal to those of Blue Earth.

The Department recommends that the Commission reject the Company's uniform rate additive and require rates that apportion 75% of the EAS costs to Winnebago, the petitioning exchange. Under the Department's proposal, subscribers in Winnebago would pay more for EAS service than Blue Earth subscribers.

The Commission need not choose between these two approaches at this time. Additional information regarding the equal rate additive approach will be required. Before evaluating the arguments regarding the equity of maintaining equal rates between Winnebago and Blue Earth subscribers, the Commission will require the Company to indicate in its revised filing the percentage of costs that would be absorbed by Winnebago under the equal rate additive approach. Obviously, rates under which the petitioning exchange would absorb less than 50% of the EAS costs would be prohibited by statute. Minn. Stat. § 237.161, subd. 3 (1990).

#### **The Company's Proposed Rates**

The deficiencies in the cost studies filed in this matter render the proposed rates based on those studies unacceptable. The Commission, therefore, will require the Company to refile its proposed rates, based on cost studies that are consistent with this Order.

#### **ORDER**

1. Within 10 days of this Order, U S West Communications, Inc. (USWC) shall either
  - a. file with the Commission and serve upon the Blue Earth Valley Telephone Company (the Company) information regarding the amount of revenues it has received from and the amount of access charges it has paid to the Company in connection with the Winnebago/Blue Earth toll route; or
  - b. file with the Commission and serve upon the Company a recertification that the information already filed in that regard is accurate.
2. Within 45 days of the date of this Order, Blue Earth Valley Telephone Company (the Company) shall refile a cost study for the Winnebago/Blue Earth EAS route. The cost study must incorporate the following items:

- a. A narrative explanation of how the cost study includes lost toll contribution in light of the Company's current accounting relationship with USWC for the provision of toll between Winnebago and Blue Earth.
  - b. A narrative explanation of how the cost study includes the cost of existing facilities that will be transferred from toll usage to EAS usage.
  - c. An explicit stimulation factor of 400% (a factor of 5). If the Company wishes to use a different stimulation factor, it shall provide evidence of the accuracy of the new factor.
  - d. An estimate of non-recurring polling costs for the Winnebago exchange.
  - e. Toll revenue contribution as a result of the accounting relationship between the Company and USWC.
3. At the same time that it files its revised cost study pursuant to Ordering Paragraph 2, the Company shall submit three (3) proposed rate design alternatives:
  - a. Rate design 1 will place 75% of the costs on the Winnebago exchange and 25% of the costs on the Blue Earth exchange;
  - b. Rate design 2 will make an equal allocation of the costs between the Blue Earth and Winnebago exchanges (50/50 cost split); and
  - c. Rate design 3 will feature a uniform rate additive between the two exchanges and will indicate the percentage of costs allocated to each exchange under this rate design.
4. Within 45 days of the Company's filing pursuant to Ordering Paragraphs 2 and 3, the Minnesota Department of Public Service shall file a second report and recommendation regarding the validity of the new cost studies and the specific rates it believes the Commission should use in the balloting process.
5. Within 20 days of the filing of the Department's report and recommendation, interested parties may comment on the Department's report and recommendation.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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